I. Lutsky

CBC

consolidated building corporation limited

ANNUAL REPORT FOR THE YEAR ENDED FEBRUARY 28, 1966

CBC

consolidated building corporation limited

99 AVENUE ROAD TORONTO, CANADA

ANNUAL REPORT

FOR THE YEAR ENDED FEBRUARY 28, 1966

consolidated building corporation limited

directors

JOHN D. FIENBERG*
JOHN S. GAIRDNER
J. HOWARD HAWKE
W. BERNARD HERMAN, Q.C.
GERALD S. HORGAN, Q.C.
BEN SADOWSKI, M.B.E.
LAWRENCE SHANKMAN*
LOUIS STULBERG*
NOEL ZELDIN*

**Executive Committee*

officers

JOHN D. FIENBERG	Chairman of the Board
NOEL ZELDIN	Vice-Chairman of the Board
LAWRENCE SHANKMAN	President
LOUIS STULBERG	Vice-President and Secretary-Treasurer

auditors

LERNER, PAPERNICK & COLOMBY .... Toronto
Chartered Accountants

transfer agent and registrar

GUARANTY TRUST COMPANY OF CANADA
Toronto, Montreal, Winnipeg, Vancouver

president's report

Lawrence Shankman

to the shareholders:

The 1966 fiscal year which has just ended can possibly best be referred to as the year of adjustments. It became apparent during the year that we were expanding too greatly and too quickly to cope adequately with the attendant administrative and supervisory problems. We therefore decided to make the year's program one of reorganization and consolidation and to divest the Company of unprofitable projects in its overall operations.

This reorganization is now basically complete and its immediate effects are reflected in this year's financial statements. There are long-range benefits to be gained and they are already apparent in the results of the first quarter of this year ended May 31, 1966, on which I will comment later in this report.

I advised the shareholders, in May 1966, of the Company's decision during the past fiscal year to curtail the development of a number of subdivisions in areas outside metropolitan Toronto and the resultant need to record in our accounts at February 28, 1966, a number of substantial losses which had not been previously recognized.

The accompanying statement of earnings and deficit shows a net loss on current operations before special charges. Our decision to curtail certain operations, coupled with the tight money situation which developed last June and rising labour and material costs, resulted in a decreased volume of business transacted during the year.

In terminating our house building operations in Vancouver, Calgary, Hamilton, London and finally in Montreal, although we could not stop work abruptly, we did undertake the completion in as orderly a fashion as possible. No new construction was authorized; units under construction were completed as economically as possible; the resultant finished inventory and the remaining serviced lots were listed for sale. Staff was reduced to the minimum necessary to handle servicing obligations to purchasers.

As a result of our decision to curtail some projects prior to their completion, and a revision in our accounting procedures, it was necessary to write off establishment and construction costs that became non-recoverable from future operations. The resultant write-off has been recorded under special charges and prior years' adjustments.

In the past, the final costs of any subdivision or project were determined only when that subdivision or project was fully completed and all revenues and expenditures pertaining to it were final. Costs applicable to each subdivision were accumulated and from this total the Company deducted the estimated cost (at a predetermined rate) applicable to the land and houses sold. Differences between actual and estimated costs

of sales were reflected in the Company's accounts only on the completion of each subdivision. During the year, we completed major subdivisions and it was necessary to recognize adjustments to cost.

The conditions that resulted in the type of accounting adjustments we encountered this year no longer prevail. Our present housing operations have been centralized with regard to management and reporting functions, and costs are compared to budget on a current basis. It is the opinion of management that the adoption of new costing methods will result in our ability to reflect accurately the Company's net position in any given fiscal period.

income tax

In August of 1965, the Exchequer Court dismissed the Company's appeal in respect to Federal income tax assessment for the year 1961. Subsequently, the Company received Federal reassessments for the years 1962 to 1965 inclusive, claiming additional taxes and interest owing of approximately $1,300,000.

However, the Company's tax position is currently being reviewed by the Federal taxation authorities, who have agreed to consider revised tax returns for the years 1961 to 1965 inclusive. The Company has now filed amended returns which are under review by the Department. While this review is as yet incomplete, indications are that the Company's cash requirements will be limited to approximately $171,000 in additional funds and that there will be a substantial tax loss carry forward to be utilized against future profits.

financial position

In the last Annual Report, our bank indebtedness was $6,015,000. By February 28, 1966, this amount had been reduced to $5,125,000 and subsequent reductions during the current fiscal period have placed our bank loan position below $4,000,000.

In the past year we reduced our long-term debt by approximately $2,600,000. I have listed below the Company's long-term debt position with the payments due over the next five years.

long-term debt

Mortgages payable	$12,992,684
6½% General Mortgage Bonds—due December 1, 1967	1,474,000
6¼% Sinking Fund Debentures, Series A—due February 1, 1979	5,000,000
	$19,466,684
Deduct mortgage payments and sinking fund requirements on Series A Debentures due within one year	1,868,958
Long-Term Debt	$17,597,726

Principal repayments due over the next five years with respect to mortgages payable are as follows:-

Year ending February 28, 1967	$1,668,958
Year ending February 29, 1968	1,165,180
Year ending February 28, 1969	874,938
Year ending February 28, 1970	284,873
Year ending February 28, 1971	753,429

Don Valley Village Limited, a wholly-owned subsidiary of the Company, purchased for cancellation during the fiscal year an aggregate of $1,307,000 6½% General Mortgage Bonds. The Company has sold all of its land inventory in Don Valley Village and the revenue from this source is more than sufficient to liquidate the remaining $1,474,000 prior to its due date of December 1, 1967.

investment properties

Gross annual income from investment properties during the past year was approximately $2,400,000. Your Company builds properties for investment and sale. Upon the completion of a project there usually occurs a substantial increase in value. In addition, real estate properties increase in equity each year through mortgage re-payments. As the projects built by the Company are completed and enjoy a full year's operations, they substantially increase our gross rental income and cash flow.

Our portfolio of revenue-producing properties includes approximately 1,000 apartment suites in Toronto, Vancouver and Victoria, a shopping plaza in Barrie, the Regency Towers Hotel and two commercial buildings in Toronto. During the past

year we successfully completed the sale of Bermuda Court apartments in Toronto to the Ontario Housing Corporation for its rental housing program. In addition, we sold the Regency Towers apartments in downtown Ottawa.

joint ventures

We have a 50% interest in the Don Valley Shopping Mall, which is now open and operating profitably. This shopping centre is located in the heart of the Company's Don Valley Village development and the principal tenant is I.G.A. Stores.

We also own 50% of a land development project in London, Ontario, which will accommodate approximately 600 residential units. This development is fully engineered and is now ready for registration and thereafter should be ready for sale to builders.

Another joint venture is a 17-acre site in the town of Aurora, Ontario, on which it is expected to commence a shopping mall of 100,000 square feet early in 1967.

A property in which we have a 50% interest is a shopping centre site at Bay Ridges, Ontario. It is expected that construction will commence in 1967.

Although the Company did not proceed with the construction of an apartment project on the Hudson River overlooking New York City, in relinquishing our rights to this project, we did retain a 5% interest in the development company that is now proceeding with construction.

real estate held for development

In the Consolidated Balance Sheet, real estate held for development and sale is shown at $5,303,124, which figure is the lower of cost or net realizable value. In the opinion of management, the current value of its real estate is $6,110,524. This latter figure has been confirmed by independent valuation.

current program

We are presently building houses for sale in Toronto and Ottawa. These houses are being built and sold profitably.

Among our recent land acquisitions is a prime location in Toronto, on which we have prepared a proposal for an apartment-commercial complex. Our present land holdings are adequate for the continued operation of an aggressive construction and land development program. We are, in addition, negotiating for the purchase of land in the metropolitan Toronto area for further Company developments. During the year we obtained rezoning of our remaining Vancouver land holdings, thereby increasing their potential yield and enhancing their market value.

first quarter results

The results for the first quarter of the fiscal year 1967 are most encouraging. Unaudited figures for the three months ended May 31, 1966, indicate a net profit of $530,000 before depreciation of approximately $90,000. This figure is made up of profits from the sale of real estate and net revenue from the Company's investment properties.

We have completed an arduous year of difficult decisions and crucial actions. Your Board of Directors wishes to assure the shareholders that the Company is financially sound and that the value of its investment properties and inventories of real estate for sale is substantially in excess of liabilities and obligations. There now remains the task of rebuilding the Company's financial strength.

The experiences of the past years have provided management with a sound basis for future operations. The outlook for our industry is favourable, and I am confident that in keeping with the first quarter results of the current year, we will continue to participate further in its profitable opportunities.

My associates join me in paying tribute to every member of our staff, whose loyalty and dedication during a very trying period were indeed commendable and exemplary.

Respectfully submitted,

LAWRENCE SHANKMAN
President

July 22, 1966

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CONSOLIDATE

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(with comparative figu

ASSETS

	1966	1965
Cash	$ 406,975	$ 389,357
Accounts receivable	10,774,865	15,500,604
Real estate held for development and sale (Note 2)	5,303,124	13,820,689
Deposits on land	40,080	223,536
Mortgages receivable	769,465	970,097
Prepaid expenses and sundry assets	440,367	915,225
Land, buildings, equipment and leasehold improvements — at cost less accumulated depreciation of $1,020,645 (1965 - $713,191) (Notes 1 and 3)	14,359,243	14,613,526
Sundry investments and advances — at cost	91,867	59,155
Excess of cost of acquiring shares in subsidiaries over equity acquired therein	112,950	112,950
Unamortized financing cost	597,754	852,646
Total Assets	$32,896,690	$47,457,785

Approved on Behalf of the Board of Directors

J. D. FIENBERG, Director

L. SHANKMAN, Director

The accompanying notes and report of the Company's auditors are an inte

corporation limited

ALANCE SHEET

RY 28, 1966
at February 28, 1965)

LIABILITIES

	1966	1965
Bank indebtedness (Note 4)	$ 5,125,000	$ 6,015,000
Accounts payable and accrued liabilities	3,713,262	6,080,247
Dividends payable	43,215	263,182
Unsecured notes payable	—	350,000
Estimated liability for required construction and development costs for real estate sold	957,229	1,337,535
Income taxes payable (Note 9)	171,051	102,320
Real estate deposits	478,407	104,421
Portion of long term debt due within one year	1,868,958	1,703,694
Unrealized income (Note 5)	515,755	593,058
Advances from shareholders	163,330	—
Long term debt (Note 6)	17,597,726	20,199,741
Total Liabilities	$30,633,933	$36,749,198

SHAREHOLDERS' EQUITY

Capital Stock (Note 7) Authorized	Issued		1966	1965
988,100	288,100	First preference shares with a par value of $10 each — issuable in series — 6% cumulative redeemable preference shares — Series A	$ 2,881,000	$ 2,881,000
6,000,000	3,669,126	Common shares — without par value	2,317,589	2,307,579
Paid in Surplus			20,000	20,000
(Deficit) Retained Earnings			(2,955,832)	5,500,008
			$ 2,262,757	$10,708,587
Commitments and contingent liabilities (Note 8)			$32,896,690	$47,457,785

art of the Financial Statements and should be read in conjunction therewith.

CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT

FOR THE YEAR ENDED FEBRUARY 28, 1966

(with comparative figures for 1965)

	1966	1965
Sales	$16,433,974	$26,461,740
Cost of Sales	14,489,084	21,924,485
	1,944,890	4,537,255
Add: Other income	428,959	490,784
	2,373,849	5,028,039
Deduct: Increase in unrealized income	10,812	(134,577)
Gross Profit	2,363,037	5,162,616
Selling, general and administrative expenses	2,063,171	1,801,902
Operating Profit	299,866	3,360,714
Deduct: Interest expense	899,387	408,501
Amortization of financing costs	241,197	212,248
Depreciation	355,324	290,677
Provision for corporation taxes	—	106,670
	1,495,908	1,018,096
Net (Loss) or Profit for Year	($ 1,196,042)	$ 2,342,618
Add: Special charges and prior years' adjustments		
Write off of establishment and construction costs not recoverable from future operations (Note 2)	2,707,161	—
Adjustment re closed subdivisions (Note 2)	3,028,742	701,651
Adjustment re prior years' expenses	252,740	112,154
Provision for prior years' taxes (Note 9)	658,000	8,055
	6,646,643	821,860
Net loss for year, special charges and prior years' adjustments	(7,842,685)	1,520,758
Retained Earnings — at beginning of year	5,500,008	5,029,811
	(2,342,677)	6,550,569
Add: Dividends on preference shares	172,860	172,860
Dividends on common shares	440,295	877,701
	613,155	1,050,561
(Deficit) Retained Earnings at end of year	($ 2,955,832)	$ 5,500,008

NOTES TO FINANCIAL STATEMENTS

NOTE 1 Principles of Consolidation

The accounts of all subsidiary companies have been included in the consolidation, including Regency Towers Hotel Limited, whose accounts have been consolidated for the first time in 1966. The 1965 figures have been restated to reflect the consolidation of this subsidiary, the effect of which was not material in either year.

NOTE 2 Real Estate Held for Development and Sale

In 1965 and prior years, it was the Company's practice to carry in its balance sheet under real estate held for development and sale, the cost of land, land improvements, building construction and establishment costs and all carrying charges. Estimated costs of land and construction were provided for in determining profits (or losses) applicable to real estate sold. Differences between actual and estimated costs of sales were reflected in the Company's accounts only on the completion of each subdivision.

In following this practice, it was necessary to write off unabsorbed land and construction costs aggregating $3,028,742 on subdivisions completed in 1966 and this amount has been included under "Special charges and prior years' adjustments" in the accompanying consolidated statement of earnings and deficit.

As of February 28, 1966, the Company has revised its accounting procedures with respect to valuing land and house construction inventories. The procedures now provide for annual revisions of the costs relating to properties which have been sold and the immediate write-off of any costs which do not appear capable of being recovered out of the profits on future sales. This change, together with the decision to curtail the future development of a number of its housing subdivisions, resulted in the writing off of house construction, development and establishment costs aggregating $2,707,161 at February 28, 1966. This amount has also been included in "Special charges and prior years' adjustments" in the accompanying statement of consolidated earnings and deficit.

The carrying value of the Company's real estate held for development and sale on February 28, 1966, was $5,303,124. The current values, as estimated by management and confirmed by independent valuation are $6,110,524.

NOTE 3 Investment Properties

The Company constructs and operates properties of an investment nature, part of which may be sold from time to time when, in the judgment of the Board of Directors, such sales are in the Company's best interest.

NOTE 4 Bank Indebtedness

The Company and a subsidiary have issued and deposited with their bankers as collateral security, demand debentures in respect to the bank loans and letters of credit outstanding. These debentures are secured by a first floating charge on the assets of the Company and carry interest at the rate of 6% per annum. In addition, there is the general assignment of accounts receivable.

NOTE 5 Unrealized Income

It is the Company's practice to reflect in profit and loss at the time of receipt and acceptance of an approved offer the revenues and costs applicable to real estate sold. At the close of each fiscal period, gross profit relating to uncompleted sales is deducted from earnings and included in unrealized income.

NOTE 6 Long-Term Debt

Mortgages payable	$12,992,684
6½% General mortgage bonds—due December 1, 1967	1,474,000
6¼% Sinking fund debentures, Series A—due February 1, 1979	5,000,000
	19,466,684
Deduct—Mortgage payments and sinking fund requirements on Series A debentures due within one year	1,868,958
Long-Term Debt	$17,597,726

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Year ending February 29, 1968	1,165,180
Year ending February 28, 1969	874,938
Year ending February 28, 1970	284,873
Year ending February 28, 1971	753,429

6½% General Mortgage Bonds

The 6½% General Mortgage Bonds were issued by Don Valley Village Limited, a wholly-owned subsidiary, pursuant to a trust deed which provided for the establishment of a sinking fund to retire the general mortgage bonds and also for certain restrictions on the payment of dividends by the subsidiary. The sinking fund requirements in respect of the year ended February 28, 1966, have been met by the subsidiary. The Company has unconditionally guaranteed these bonds. During the past year, $1,307,000 have been purchased by the Company for cancellation. The balance of $1,474,000 due December 1, 1967, is self-liquidating. The land in Don Valley Village has all been sold and accounts receivable are more than sufficient for the purchase or redemption of the mortgage bonds prior to the due date.

6¼% Sinking Fund Debentures, Series A

These are unsecured and were issued by the Company pursuant to a trust indenture dated January 15, 1964, which provided that the Company is to establish a sinking fund for the retirement on February 1st in each of the years 1967 to 1970 inclusive of 4% of the aggregate principal amount of the debentures issued, increasing to 8% on February 1st in each of the years 1971 to 1975 inclusive, and to 14% in each of the years 1976 to 1978. Sinking fund requirements for the year ending February 28, 1967, will amount to $200,000.

The trust indenture also provides that no dividends on common shares may be paid by the Company unless immediately after the payment thereof the aggregate amount paid subsequent to August 31, 1963, does not exceed the aggregate of the consolidated net earnings available for dividends of the Company and its subsidiaries subsequent to August 31, 1963, plus the net cash proceeds to the Company of the issue, after August 31, 1963, of any of its shares. The consolidated retained earnings of the Company at August 31, 1963, not available for dividend payments amounted to $4,438,055. The aforesaid provision of the Trust Indenture, together with the net loss for year, special charges and prior years' adjustments shown in the financial statements, will prevent consideration of the payment of dividends on the common shares until such time as permitted from consolidated net earnings of the Company and its subsidiaries subsequent to August 31, 1963, less dividends paid to date

on the common shares, plus the net cash proceeds to the Company of the issue after August 31, 1963, of any of its shares.

None of the above shall apply to or operate to prevent the payment of dividends on the 6% Cumulative Redeemable Preference Shares Series A.

NOTE 7 Capital Stocks

Common Shares

Share purchase warrants are outstanding which entitle the bearer to purchase common shares of the Company at any time up to and including June 30, 1969, at a price of $10 for three common shares to June 30, 1965, increasing by $1 for three shares every year thereafter until June 30, 1969, at which time the share purchase warrants expire. During the year ended February 28, 1966, 3,003 common shares were issued for a cash consideration of $10,010 on the exercise of rights attached to these warrants. At February 28, 1966, 305,874 of the authorized and unissued common shares were reserved for possible issue on exercise of the rights attached to the outstanding share purchase warrants.

Series A First Preference Shares

Under certain conditions attaching to the first preference shares, the Company is required to set aside as a purchase fund for the purchase and cancellation of the preference shares, the amount of $150,000 annually with an overall limitation of $300,000 to be set aside in such purchase fund at any one time. The amount set aside is to be applied as soon as practicable to the purchase of the Series A preference shares in the market, subject to certain price limitations. Subsequent to May, 1963, the Company has not complied with this condition.

NOTE 8 Commitments and Contingent Liabilities

The Company has two long-term leases in effect for its premises under which approximate annual rentals of $333,000 are payable, exclusive of real estate taxes, insurance, maintenance and repairs. Rental income from these premises subleased to others is estimated at $452,000 for the year ending February 28, 1967. Each lease contains an option to purchase the leased premises.

The Company and one of its subsidiaries have lodged letters of credit aggregating $450,000 with municipalities as security for the fulfillment of their obligations under certain subdivision agreements.

The Company is jointly and severally liable on a mortgage on the Don Valley Shopping Centre in the amount of $575,000., which is payable by a joint venture in which the Company has a 50% interest.

The Company has commitments in respect of subdivision agreements requiring the installation of services within one year. The balance of the cost of such services is estimated by management to be $232,000.

NOTE 9 Income Taxes

The Company's appeal to the Exchequer Court in respect of the Federal income tax assessment for the year ended February 28, 1961, was dismissed in August, 1965, and following this the Company received Federal income tax assessments for the fiscal years 1962 to 1965 inclusive, which substantially increased the amount of taxable income

for these years, principally as a result of the reduction in the capital cost allowance claims for 1962 and 1963. Provincial income tax assessments for 1961, 1962 and 1963 incorporating the increase in taxable income reflected in the Federal assessments for these years have also been received. It is expected that the additional taxes owing as a result of these Federal and Provincial assessments, on the most unfavourable basis would approximate $1,300,000. This will be offset in large part by tax reductions arising from the apportionment of the special charges and prior years' adjustments (see Note 2). The Company's income tax position is currently being reviewed by the Federal taxation authorities and, while this review is as yet incomplete, indications are that the net result of the assessments and these adjustments will be additional taxes plus interest due in respect of prior years of approximately $658,000 against which only $171,051 remains to be paid. Provision, therefore, has been made in the accompanying financial statements for this amount as a prior years' adjustment.

It is the Company's practice to claim maximum capital cost allowance for tax purposes, rather than depreciation recorded in the accounts, and in addition to claim for income tax purposes in the year incurred interest and other carrying charges which have been capitalized in the accounts. To February 28, 1966, the total of these costs, together with the excess of capital cost allowances claimed over depreciation recorded in the accounts is included in the amount of losses available for carry forward against future years' income.

NOTE 10 Directors' Fees

These amounted to $18,000 for both the years ended February 28, 1965, and 1966.

AUDITORS' REPORT

To the Shareholders
Consolidated Building Corporation
Limited

We have examined the consolidated balance sheet of Consolidated Building Corporation Limited as at February 28, 1966 and the consolidated statement of earnings, for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet, supplemented by the notes appended thereto, and the consolidated statement of earnings and deficit present fairly the financial position of Consolidated Building Corporation Limited as at February 28, 1966, and the results of operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the changes in accounting procedures as described in notes 1 and 2, with which we concur.

Lerner, Papernick & Colomby
July 11, 1966 *Chartered Accountants*